

**REPORT OF THE AUDIT OF THE
HARLAN COUNTY
SHERIFF'S SETTLEMENT - 2011 TAXES**

**For The Period
April 17, 2011 Through April 16, 2012**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
HARLAN COUNTY
SHERIFF'S SETTLEMENT - 2011 TAXES

For The Period
April 17, 2011 Through April 16, 2012

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2011 Taxes for the Harlan County Sheriff for the period April 17, 2011 through April 16, 2012. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$9,707,290 for the districts for 2011 taxes, retaining commissions of \$404,814 to operate the Sheriff's office. The Sheriff distributed taxes of \$9,292,170 to the districts for 2011 taxes. Taxes of \$11,853 were retained by the Sheriff for prior year taxes. Taxes of \$48 are due to the districts from the Sheriff and refunds of \$4,831 are due to the Sheriff from the taxing districts.

Report Comment:

2011-01 The Sheriff Should Distribute All Collections Due To The Districts

Deposits:

The Sheriff's deposits as of November 8, 2011 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$325,500

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT.....	1
SHERIFF'S SETTLEMENT - 2011 TAXES.....	3
NOTES TO FINANCIAL STATEMENT	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	9
COMMENT AND RECOMMENDATION	13



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Joseph A. Grieshop, Harlan County Judge/Executive

Honorable Marvin Lipfird, Harlan County Sheriff

Members of the Harlan County Fiscal Court

Independent Auditor's Report

We have audited the Harlan County Sheriff's Settlement - 2011 Taxes for the period April 17, 2011 through April 16, 2012. This tax settlement is the responsibility of the Harlan County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Harlan County Sheriff's taxes charged, credited, and paid for the period April 17, 2011 through April 16, 2012, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 23, 2013 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Joseph A. Grieshop, Harlan County Judge/Executive

Honorable Marvin Lipfird, Harlan County Sheriff

Members of the Harlan County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2011-01 The Sheriff Should Distribute All Collections Due To The Districts

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized, flowing script.

Adam H. Edelen
Auditor of Public Accounts

January 23, 2013

HARLAN COUNTY
MARVIN LIPFIRD, SHERIFF
SHERIFF'S SETTLEMENT - 2011 TAXES

For The Period April 17, 2011 Through April 16, 2012

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,795,782	\$ 1,199,993	\$ 1,878,679	\$ 693,308
Tangible Personal Property	905,593	522,361	1,030,884	1,194,775
Franchise Taxes				
Current Year	65,037	36,806	67,670	
Prior Year	93,769	51,433	97,181	
Additional Billings	4,812	2,784	4,422	1,882
Oil Property Taxes	35,312	20,673	44,140	13,633
Gas Property Taxes	131,313	76,876	164,141	50,697
Limestone, Sand and Mineral Reserves	1,103	646	1,379	426
Bank Franchises	88,417			
Penalties	25,177	15,828	27,707	15,097
Adjusted to Sheriff's Receipt	6,930	(345)	1,168	(68)
Gross Chargeable to Sheriff	3,153,245	1,927,055	3,317,371	1,969,750
<u>Credits</u>				
Exonerations	19,368	12,533	23,065	18,530
Discounts	41,930	25,325	43,124	28,388
Delinquents:				
Real Estate	138,337	95,081	149,875	53,369
Tangible Personal Property	3,105	1,927	3,090	2,746
Current Year Franchise	8	4		
Prior Year Franchise	125	68	133	
Total Credits	202,873	134,938	219,287	103,033
Taxes Collected	2,950,372	1,792,117	3,098,084	1,866,717
Less: Commissions *	125,391	76,165	123,923	79,335
Taxes Due	2,824,981	1,715,952	2,974,161	1,787,382
Taxes Paid	2,825,931	1,704,021	2,975,151	1,787,067
Taxes Paid to Prior Year Tax Account		11,853		
Refunds (Current and Prior Year)	888	1,028	977	343
Due District or (Refunds Due Sheriff) as of Completion of Audit	\$ (1,838)	\$ (950)	\$ (1,967)	\$ (28)

**

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY
MARVIN LIPFIRD, SHERIFF
SHERIFF'S SETTLEMENT - 2011 TAXES
For The Period April 17, 2011 Through April 16, 2012
(Continued)

* Commissions:

4.25% on \$ 6,609,206

4% on \$ 3,098,084

** Special Taxing Districts:

Library District \$ (401)

Health District (200)

Extension District (397)

City of Cumberland 48

Due District or

(Refunds Due Sheriff) \$ (950)

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT

April 16, 2012

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Harlan County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
April 16, 2012
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 16, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 8, 2011, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$325,500

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2011. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2012. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 26, 2011 through April 16, 2012.

Note 4. Interest Income

The Harlan County Sheriff earned \$469 as interest income on 2011 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Harlan County Sheriff collected \$54,656 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed monies. After three years, if the funds have not been claimed, they should be submitted to the Kentucky State Treasurer. There was a balance of \$814 as of April 16, 2011 for surplus money from prior years. The Sheriff had receipts of \$1 and disbursements of \$24 for an ending balance of \$791 as of April 16, 2012. Therefore, the Sheriff should send a written report to the Treasury Department.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Joseph A. Grieshop, Harlan County Judge/Executive
Honorable Marvin Lipfird, Harlan County Sheriff
Members of the Harlan County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Harlan County Sheriff's Settlement - 2011 Taxes for the period April 17, 2011 through April 16, 2012, and have issued our report thereon dated January 23, 2013. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Harlan County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Harlan County Sheriff's Settlement - 2011 Taxes for the period April 17, 2011 through April 16, 2012, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation as item 2011-01.

The Sheriff's response to the finding identified in our audit is described in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Harlan County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

January 23, 2013

COMMENT AND RECOMMENDATION

HARLAN COUNTY
MARVIN LIPFIRD, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 17, 2011 Through April 16, 2012

COMPLIANCE AND OTHER MATTERS:

2011-01 The Sheriff Should Distribute All Collections Due To The Districts

During our review of monthly tax collection reports, we noted two instances in which collections were withheld from taxing districts to offset refunds due to the Sheriff per the prior year audit. The Sheriff was due a refund of \$3,438 from the Health district and \$8,414 from the Soil Conservation district for overpayments made in the prior year. Although the districts owed the funds to the Sheriff, the Sheriff should have collected the refunds from the districts in a separate transaction. According the KRS 134.191, the Sheriff shall provide monthly reports by the tenth day of each month to the chief executive of the county, the department, and any other district for which the sheriff collects taxes and at the time of making the report, the sheriff shall pay to the county treasurer or other officer designated by the governing body of a county, to the department, and to any other district for which the sheriff collects taxes, all funds belonging to the county, the state, or the district that were collected during the period covered by the report. We recommend the Sheriff comply with KRS 134.191 regarding monthly reporting and distribution procedures.

Sheriff's Response: We had overpaid the taxing districts and when contacted stated they didn't have the money to refund us. To ensure the accounts would balance I am obligated to retrieve monies owed the Sheriff's office.

